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Panama: Creating Greater Opportunities for All

Reducing Persistent Poverty and Inequality

Overview

Panama, through sound economic management, has grown faster than almost any Latin American economy in recent years, and through a partnership with the International Bank for Reconstruction and Development (IBRD), the country is striving to ensure the benefits of this prosperity reach its poorest citizens. By relying on a flexible range of lending and technical support from IBRD, Panama was able to achieve results in areas as diverse as providing improved health and nutrition services to 400,000 families in rural areas to streamlining government procurement services and making it easier for Panamanians to start a business.

Challenge

Panama, with a population of approximately 3.5 million, a world famous canal, a modern financial sector, and the economy of an upper-middle income country remained a nation of stark contrasts. Most notable was the high degree of inequality, perpetuated by educational disparities, differential access to basic services, and wide discrepancies in productivity and incomes. As the Bank approached a new Country Partnership Strategy for the fiscal years 2008-10, Panama continued to face the following challenges: keeping the economy growing at high rate; helping the poor and vulnerable participate in the economy and benefit from its strong growth; increasing the efficiency and transparency of the Government; and improving the lives of poorer Panamanians through better health, nutrition, and education.

Over 2004-2006, the Panamanian economy grew on average at 7.5 percent per year driven by a healthy global economy, and facilitated by internal reforms and macroeconomic discipline. The expectation in approaching the FY2008-10 support strategy was that it would continue to grow at a similar pace. The prospects for growth were underpinned by the decision to expand the Panama Canal, with investments close to 30 percent of gross domestic product (GDP). The challenge for the Government was to derive the greatest profit from these opportunities, generating income and employment, particularly for the poor and vulnerable.

The relatively high levels of poverty in Panama were not due to lack of social spending, but rather to inadequate targeting and the inefficiency of Government programs. Panama was spending 17 percent of GDP in the social sectors, above other countries in Latin America, but its outcomes were not

More Results

8%

GDP growth over the last 5 years

70,000

Families benefit from the "Red de Oportunidades" program

MORE INFORMATION

- Panama World Bank Office (spanish)
- Panamanian Ministry of Economy and Finance
- Panamanian Ministry of the Presidency
- En Breve #165 on Panama Procurement (PDF)
- Inter-American Development Bank
- United Nations Panama

in line with such levels of expenditure. Social assistance spending, around one percent of GDP, had historically gone to universal subsidies including price subsidies for electricity and piped water, services traditionally out of reach to the poor in Panama. In addition, rural poverty has and continues to put pressure on the country's natural resource base in unsustainable ways. The other challenges facing Panama included: providing and maintaining infrastructure, educating the population, supporting innovation, and regulating efficiently.

Andean Development Corporation

Approach

The World Bank and Panama relied upon a three-year Country Partnership Strategy for fiscal years 2008-10 that proposed a flexible menu of lending and non-lending services based around public policy reforms. These included better targeting and effectiveness of social assistance; sustainable increases in rural productivity; land tenure security and access for the rural poor; improved governance and regulatory frameworks; worker training and innovation to increase competitiveness; urban transport planning; sustainable tourism; strengthening public financial management and procurement; and improved health, nutrition and education services for the poor.

The strategy design relied on a development policy lending series (which support budget operations) to support and track delivery of the bulk of the expected results. The investment and technical assistance portfolio, complemented by an analytical and advisory work program, assisted the Government in achieving results. The Bank program was aligned with the Government's five-year Strategic Plan for 2004–2009, which aimed to address Panama's development challenges: reducing poverty and inequality; promoting economic growth; strengthening public financial management; and investing in its people.

Results

Panama has been one of a few countries in the region that withstood the global financial crisis and it has been one of the fastest growing economies in Latin America, with GDP growth averaging about 8 percent over the past five years. This high growth rate has helped drive unemployment down to 5.6 percent from 13.8 percent over this period and has also contributed to declining measures of poverty. Panama's 2008 Living Standards Measurement Survey showed an overall drop in poverty to 32.7 percent in 2008 from 36.8 percent in 2003, and extreme poverty to 14.2 percent from 16.6 percent over the same period. These trends continued as the government and the Bank undertook the 2008-2010 Country Partnership Strategy.

A major achievement in terms of reducing poverty and inequality was the establishment of a targeted social assistance system, in Spanish "Red de Oportunidades". The Government launched the program in March 2006 and the Bank provided financial backing for the initiative in 2008-2010 through the Social Protection project, which covered around 11 percent of the population and exceeded the original target of 60,000 poor households with children. Today, over 70,000 families benefit from this program. It was also a key instrument to mitigate the impact of the 2008 food crisis on the poorest households of the country; the monthly transfer per household rose to US$50 from US$35 to offset the higher prices of food. The Bank-funded Social Protection project contributed to the design and implementation of this conditional cash transfer (CCT) program and supported its management information system. The Government extended the use of this database to support other programs.

In 2008, to help mitigate the negative impact of external shocks on the poor, the Government adopted a three-pronged response: increase in the size of the CCT program and improve the targeting of other social programs; improve the quality and coverage of health and nutrition services to the extreme poor; commit to maintain levels of social spending during the economic deceleration, despite overall cuts in fiscal spending. A FY09 Bank loan facility, "Protecting the Poor Under Global Uncertainty", the Social Protection project, and the Health Equity and Performance Improvement project all supported these efforts.

Another result was tangible progress in the reform of land administration. Half the country was photographed, 51,876 parcels were surveyed, and 12,422 titles were issued in the provinces of Chiriquí, Veraguas, and Bocas del Toro, 113 and 104 percent respectively of the target set

under the CPS. As of 2010, the Rural Productivity Project and its GEF supplement gave training and institutional strengthening support to 197 associated rural producers, exceeding the target of 140.

The Bank was successful in working with Panama on measures to promote economic growth. In 2006, the Government launched the National Training Plan, with a target of training 200,000 workers by the end of 2008 in selected priority areas determined on the basis of public consultations, including tourism, construction, agriculture, transport, and other sectors. The expansion of the training system has exceeded expectations, with 211,230 graduates by the end of 2008 and an additional 50,829 in 2009.

In another indication of economic progress, the 2011 Doing Business report ranked Panama 72 out of 183 countries evaluated, the highest in Central America. Panama promoted business start-ups by increasing efficiency at the registrar, reducing the corporate income tax rate, modifying various taxes, and creating a new tax court of appeals.

Another important result from Bank assistance was the strengthening and modernization of public financial management. In terms of public procurement, significant progress was made with reforms to enhance the efficiency of supply management systems. PanamaCompra, an online platform for Government purchases launched in 2006, and was followed by a second version in 2010 that allows online bidding. More than 200,000 contracts worth about US$2.5 billion were made publicly available through this system, generating savings and transparency in the bidding process. Substantial gains were made in the time it takes to purchase goods reducing procurement cycles to 3 days from 62 days for small items and to 67 days from 100 days for major purchases. In addition, through Bank technical assistance and loan support, Panama introduced framework agreements for commonly used goods, which created a more transparent and competitive market. From April 2007 to January 2010, the Government procured over US$154 million worth of goods through these agreements, saving over US$20 million in the procurement of fuel alone in 2009.

A Social and Fiscal Responsibility law that set forth a framework for fiscal management was enacted in June 2008 with the technical support from the International Monetary Fund (IMF) and the Bank. The law insured fiscal accounts remain under control, establishing limits to annual deficits and debt. As consequence of a sustained improvement in public finances, underpinned by tax reforms, and the economy's resilience to the global financial crisis, Panama's credit rating was raised to investment grade by the three main international credit rating agencies in 2010.

The Bank also made a priority of achieving results by improving health, nutrition, and education attainment of the poor. Through the Health Equity and Performance Improvement project, access to basic health and nutrition services for poor families expanded. In 2010, more than 400,000 families in rural areas, including the indigenous "comarcas", benefitted from a package of basic health and nutrition services provided through mobile teams. In addition, the Government strengthened the nutrition component in its package of basic health services delivered to poor and isolated communities, as a part of the National Plan to Combat Child Malnutrition of 2008-2015.

The World Bank contributed to the increase in coverage of pre-school and secondary education through the Second Basic Education Project and its Additional Financing, the implementation of which continued through 2008-2010. The preschool coverage of 4-5 year-old children increased to 61 percent in 2007 from 31 percent in 2001, while the enrollment of these children increased to 92,900 in the same period from 55,369 - 38,500 of this increase as a consequence of the project. During 2000-2007, net enrolment in secondary school (12-17 years) increased to 64.6 percent from 58.5 percent. As a consequence, the number of primary graduate students in rural areas with possibility to continue their lower secondary education (grades 7-9) went from 0 at the start of the project to 17,211 in 2008.

Bank Contribution

As of February 28, 2011, the IBRD portfolio in Panama comprised six lending operations and a grant from the Global Environment Facility (GEF), with commitments of US$236.4 million and a total disbursement of US$48.8 million in health, social protection, rural development, and infrastructure sectors. On the analytical front, the Bank delivered analytical and advisory activities that enriched the dialogue with the Government and assessed the challenges and

opportunities that Panama faces in achieving sustained high growth. These included the Country Economic Memorandum in conjunction with the Investment Climate Assessment, and a Poverty Assessment, which is currently under preparation.

Partners

In addition to its partnership with the World Bank, the Government has been in close dialogue with multilateral and bilateral partners, such as the Inter-American Development Bank (IDB), the Andean Development Corporation, the European Commission, agencies of the United Nations, as well as bilateral agencies from the US, Japan, and Spain. The IDB and the World Bank are jointly supporting the Red de Oportunidades program. New operations such as the Metro Water and Sanitation Improvement Project will be implemented jointly and coordinated closely with IDB and Andean Development Corporation in the new Bank Country Partnership Strategy with the Government.

Moving Forward

The Bank expects to provide Panama with flexible, demand-driven and focused assistance to achieve its development goals. The shared strategy between Panama and the World Bank Group includes reducing poverty and inequality by expanding opportunities for the poor, particularly the most vulnerable, via sustainable and broad-based growth. In addition, with more effective and accountable public institutions, Panama's available resources can be turned into greater development outcomes. A new Country Partnership Strategy for FY11-14, aligned with the Government's five-year Strategic Plan for 2010-2014, was presented to the IBRD Board on September 21, 2010. Two investment operations and one development policy lending operation are in the pipeline for FY11 totaling US$230 million. The various loans will enhance targeting of social spending, further strengthen the health sector, and support major policy actions for economic growth and enhancing public sector efficiency. The proposed Country Partnership Strategy includes an overall Bank lending program of about US$400 million, together with analytical and advisory services.

This strategy takes into account lessons learned from previous experience and is built around three pillars: (i) economic growth based on competitive advantages, (ii) greater opportunities for all, and (iii) enhanced public sector transparency and efficiency.